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3-SIGMA VALUE

Q1 2016 In Review

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For the quarter ended March 31, 2016, 3-Sigma Value, LP (the "Partnership") had an estimated gain of 3.0% (net of management fees and expenses) with average gross exposure of 81.9% and net exposure of negative 10.0%.

3-Sigma Value, LP

PERFORMANCE AND EXPOSURE STATISTICS [1]

	Monthly Performance		Average Fund Exposure			
	Gross [2]	Net [3]	Long	Short	Gross	Net
2011	37.4%	29.9%	78.6%	89.4%	168.1%	-10.8%
2012	32.3%	25.8%	64.8%	79.0%	143.8%	-14.1%
2013	-12.8%	-12.8%	46.7%	72.4%	119.1%	-25.7%
2014	18.1%	17.0%	7.4%	54.9%	62.3%	-47.4%
2015	12.9%	10.3%	22.9%	41.6%	64.5%	-18.7%
January	3.9%	3.1%	39.5%	54.2%	93.7%	-14.7%
February	-2.8%	-2.8%	36.2%	42.8%	79.0%	-6.6%
March	2.0%	1.6%	32.0%	40.8%	72.8%	-8.8%
2016 YTD	3.0%	2.4%	35.9%	45.9%	81.9%	-10.0%
Cumulative [4]	117.3%	88.1%				
Annualized [4]	15.9%	12.8%				

1 All performance statistics listed herein have been audited by an independent third party auditor with the exception of the statistics for any period after December 31, 2014, which are unaudited estimates confirmed by an independent third party administrator.
2 Net of management fee and expenses.
3 Net of incentive fee.
4 Since January 2011.

The Partnership's portfolio, both long and short, focuses its investment efforts in three industries – Technology, Media & Telecom ("TMT"), Natural Resources, and Financials. In total, 3-Sigma Value, LP is invested long in 18 companies, and short 26 companies. Our investment approach is global in scope, yet, at this time, North American equities constitute the vast majority of our gross exposure. We are market-cap agnostic.

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3-SIGMA VALUE

As of March 31, 2016, the 3-Sigma Value portfolio had gross long exposure of 31.9% and gross short exposure of 45.3%, for net investment exposure of negative 13.4%. As value investors frequently targeting companies facing rapidly changing operating performance and/or market perceptions, we remain cognizant that portfolio correlation to the market can change on a dime and thus the continuity between the past and future is tenuous at best. Notwithstanding this caveat, we generally seek overall market agnosticism in the construction of the portfolio as reflected in a target range of net exposure between negative 25% and positive 25%.

Balance Sheet (% Of Equity) - 3/31/16				
	Long	Short	Gross	Net
By Industry				
Technology	9.2%	-23.7%	33.0%	-14.5%
Natural Resources	11.4%	-12.0%	23.3%	-0.6%
Financials	11.3%	-9.6%	20.9%	1.7%
Total	31.9%	-45.3%	77.2%	-13.4%
By Geography				
North America	27.5%	-43.3%	70.8%	-15.8%
South America	3.2%	0.0%	3.2%	3.2%
EMEA	1.2%	0.0%	1.2%	1.2%
Asia	0.0%	-2.0%	2.0%	-2.0%
Total	31.9%	-45.3%	77.2%	-13.4%
By Market Capitalization				
Greater than $1B	23.2%	-18.3%	41.6%	4.9%
$500M - $1B	1.1%	-6.0%	7.1%	-4.8%
Less than $500M	7.6%	-21.0%	28.6%	-13.4%
Total	31.9%	-45.3%	77.2%	-13.3%
# of Positions				
# of Long Positions	18			
# of Short Positions	26			
Total # of Positions	44			

In recent years, we have used this first quarter letter to describe 3-Sigma Value's approach to investing in banks, and financials more broadly. This year is no exception.

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3-SIGMA VALUE

Bank Investing in 2016

When we began reconstructing the bank portfolio after a very successful 2015, our focus was completely different than it is now. We began with a continuation and expansion of 3-Sigma Value's core framework for evaluating spread businesses. Because two of the five banks in our 2015 portfolio were acquired – **Baylake Bank (BYLK)** in Sturgeon Bay WI and **Pulaski Bank (PULB)** in St. Louis MO – reawakening us to the joy of successfully picking take-outs – we added an M&A component given robust consolidation that we expect to continue. And then a funny thing happened on the way to the trading desk…bank stocks crumbled 20% to 30% or more to start 2016. The carnage in the bank sector has been more severe than in any other sector except for energy, carnage that is largely unjustified by the underlying fundamentals.

According to the FDIC's Quarterly Banking Profile for the Fourth Quarter of 2015, FDIC-insured institutions earned $163.7 billion, up 7.5% from the $152.7 billion earned in 2014. Loan and lease balances rose 6.4% in 2015 while return on assets (ROA) was stable at 1.04% (ROA has been above 1.00% since 2012).

All FDIC-Insured Institutions (1)											
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net Interest Margin (NIM)	3.07%	3.14%	3.26%	3.42%	3.60%	3.76%	3.49%	3.16%	3.29%	3.31%	3.47%
Return on Assets (ROA)	1.04%	1.01%	1.07%	1.00%	0.88%	0.65%	-0.07%	0.03%	0.81%	1.28%	1.28%
Return on Equity (ROE)	9.31%	9.01%	9.54%	8.91%	7.79%	5.85%	-0.72%	0.35%	7.75%	12.30%	12.43%
Leverage	8.95x	8.92x	8.92x	8.91x	8.85x	9.00x	10.29x	11.67x	9.57x	9.61x	9.71x
# of Institutions Reporting	6182	6,509	6,812	7,083	7,357	7,658	8,012	8,305	8,534	8,680	8,833
# of Problem Institutions	183	291	467	651	813	884	702	252	76	50	52
	-37.1%	*-37.7%*	*-28.3%*	*-19.9%*	*-8.0%*						
Assets of Problem Institutions (in billions)	$47	$87	$153	$233	$319	$390	$403	$159	$22	$8	$7
Nonperforming Assets as a % of Total Assets (2)	0.93%	1.20%	1.63%	2.20%	2.60%	3.11%	3.37%	1.91%	0.95%	0.54%	0.50%
# of Failed Institutions	8	18	24	51	92	157	140	25	3	0	0
	-55.6%	*-25.0%*	*-52.9%*	*-44.6%*	*-41.4%*						
(1) Data is taken from the FDIC's Fourth Quarter 2015 Banking Profile.											
(2) Includes Other Real Estate Owned (OREO).											

Despite solid underlying profitability, the banking industry does face a myriad of issues. Fear, for one, is gripping bank investors. Fear of a flat yield curve. Fear of hidden credit losses. Fear of energy. Fear of contagion. These fears are all valid. But most banks are very different today from when the credit crisis began nine years ago in 2007. Most banks are well capitalized and well-reserved. Most banks have avoided sub-prime and other low credit quality borrowers, leaving the adverse selection to a burgeoning non-bank financial sector that includes Business Development Companies (BDCs), REITs, RICs, and other special purpose vehicles (SPVs). All of these newfangled non-bank entities have assumed much of the risk that used to go straight

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onto banks' balance sheets. As a result, most banks have book values that will prove durable during a recession.

The banking industry is often painted in broad strokes even though no two banks are the same. We find opportunity investing in banks because there is no sector in the market where valuation diverges as widely. Two banks of a similar size and similar composition of assets and liabilities may trade at wildly differed valuations. Usually this is due to management teams. Some are excellent. Others not so much. Geography also matters. And ultimately, it is profitability that determines valuation.

Valuation is not in the eyes of the beholder, it is neither art nor love. It is science. Every input must be validated; every output must be cross-checked. Based on (1) the high correlation between return on equity (ROE) and P/TBV, (2) earnings growth, and (3) comparable bank valuations, we employ a range of Price-to-Tangible Book Value multiples (P/TBV) and Price-to-Earnings (P/E) – to estimate future values.

Empirically, the higher the return on equity the higher the multiple of book value. This basic relationship between P/BV and ROE generally holds across all banking (spread) businesses. Based on data from SNL Financial going back to 1990, the median P/TBV of announced M&A transactions is 1.8x. In the early 1990s, banks were sold in the range of 1.3x to 1.8x before elevating above 2x in 1997 and remaining there for 10 years except during the brief recession that followed the bursting of the internet bubble. By 2003, M&A multiples were back over 2x, peaking at 2.3x in 2006.

A similar empirical relationship exists between return on equity (ROE), earnings growth, and the multiple of price-to-earnings (P/E). Using data going back to 1990, the mean/median P/E multiple[1] across all banks has been 13.8x/13.9x, with a high north of 20x during the credit bubble in the mid-2000s. From the standpoint of M&A, P/Es have averaged over 20x historically, and have risen from 18.3x in 2009 to over 20x in 2015. We apply P/E multiples as a sanity check to the primary analysis based on the relationship between ROE and P/TBV, and adjust accordingly if the results are statistically disparate.

[1] Based on LTM (latest twelve months) EPS.

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Banks benefit from economies of scale and it follows that valuation multiples are positively correlated to size. In an over-banked market with thousands of chartered banks it is easier to buy then build. As a result, what we find in the U.S. is an active and consolidating M&A market that has the power to elevate the valuation of any well-managed and profitable bank. Valuations are all over the place. Herein lies the opportunity. Herein lies the alpha.

Building on our analysis in Bank Investing in 2015, 3-Sigma Value seeks the following 5 key characteristics in a bank investment:

1. Return on assets (ROA) in excess of 0.90% in 2016 – a bank that earns 0.90% (the minimum level) is worth at least 1.8x tangible book value (TBV) based on historical M&A data (using data from SNL going back to 1990).

2. Franchises that are tightly managed, as reflected in a below-average efficiency ratio[2]. By cross-checking efficiency ratios with ROA, we identify profitable banks where the high level of profitability is (in part) due to efficient cost management.

3. **Management is always the predominant factor** in any bank investment, or any investment in financial services for that matter. Financial services is a human capital business.

4. A catalyst to unlock value over 3-Sigma Value's investment time horizon of 1 to 3 years.

5. M&A candidacy. In 2015, two of the five banks in our portfolio were acquired. First, in September 2015**, Baylake Bank (BYLK)** was acquired by **Nicolet National Bank (NCBS)** for $141 million, equal to $15.02 plus $0.40 cash per share or 1.44x TBV / 15x LTM EPS. Then, in December 2015, **Pulaski Bank (PULB)** was acquired **by First Busey Corporation d.b.a. Busey Bank**, for $212 million ($17.50), equal to 1.8x TBV / 15x LTM EPS.

[2] Efficiency ratio equals non-interest expense divided by (net interest income plus non-interest income). Ironically, a 100% efficiency ratio means a bank is not being efficient. The lower the ratio the better, with most banks striving for a sub-60% ratio.

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In light of continuing consolidation in the banking industry, we are drawn to the busiest geographies in terms of deal volume – Florida, Georgia and the Carolinas. The southeast is consolidating in the wake of a boom and bust banking cycle more extreme than what was experienced in other parts of the country. More banks were formed and more banks failed in Florida and Georgia than any other states during the bubble. Now that the dust has settled, the southeast remains a powerful demographic that continues to attract money from all over the world. And therefore, the southeast remains a growth market for banking.

While certain pockets of banks' loan portfolios are experiencing rising delinquencies and net charge offs (NCOs) such as in energy and subprime auto, returns are generally strong with many solid banks earning 0.90%+ ROA and 10%+ ROE. To ascertain what a bank with these economics is worth, we analyze recent M&A transactions in the Carolinas, Georgia, and Florida.

Bank Consolidation in the Southeast: the Carolinas, Georgia, & Florida

Acquirer	Target	Assets Acquired	P/TBV	Date
PacWest Bancorp (PACW) - Beverly Hills, CA	Square 1 Bank (SQBK) - 1 branch bank in Durham, NC	3,100	2.63x	Mar 2015
Yadkin Bank (YDKN) - Raleigh, NC	NewBridge Bank (NBBC) - Greensboro, NC	2,800	1.97x	Oct 2015
Capital Bank Financial (CBF) - Coral Gables, FL	CommunityOne Bancorp (COB) - Charlotte, NC	2,400	1.31x	Nov 2015
Renesant Bank (RNST) - Tupelo, MS	Heritage Bank of the South (HBOS) - GA	1,800	1.69x	Dec 2014
Bank of the Ozarks (OZRK) - Little Rock, AR	C1 Financial (BNK) - St. Petersburg, FL	1,700	2.03x	Nov 2015
Valley National Bank (VLY) - Wayne, NJ	1st United Bank (FUBC), based in Boca Raton	1,700	1.80x	May 2014
Valley National Bank (VLY) - Wayne, NJ	CNL Bancshares (CNLB), based in Orlando	1,400	1.68x	May 2015
United Community Bank (UCBI) - Blairsville, GA	Palmetto Bank (PLMT) - Greenville, SC	1,200	1.77x	Apr 2015
IberiaBank (IBKC) - Lafayette, LA	Georgia-Commerce Bancshares in Atlanta GA	1,000	2.02x	Dec 2014
BNC Bancorp (BNCN) d.b.a. Bank of North Carolina	High Point Bank (HPTB) - High Point, NC	800	1.45x	Nov 2015
BNC Bancorp (BNCN) d.b.a. Bank of North Carolina	Southcoast Community Bank (SOCB) - Mt. Pleasant, SC	500	2.02x	Aug 2015
CenterState Banks (CSFL) - Davenport, FL	Community Bank of South Florida (CBKS), hq in Homestead, FL	495	1.45x	Oct 2015
Ameris Bank (ABCB) - Moultrie, GA	Jacksonville Bancorp (JXSB) - Jacksonville, FL	300	2.37x	Oct 2015
		Average	1.86x	
		Average (ex. SQBK)	**1.80x**	

The range of price-to-tangible book value (P/TBV) from 1.31x to 2.37x[3] reflects relative profitability and the high correlation between return on tangible common equity (ROTCE) and P/TBV. The average (ex. SQBK) P/TBV of 1.8x dovetails nicely with data going back to 1990. We use this data to project take-out valuations for acquisition candidates in the southeast.

[3] Excluding Square 1 Bank (SQBK). 3/14 IPO @ $18 of bank "dedicated exclusively to serving the financial needs of entrepreneurs and the venture capital community". Had 1 branch and $3.1B assets as of 12/31/14.

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Bank Consolidation in the Southeast: the Carolinas

		Price as of	Shares	Market	Q4 2015					2015/2016		12/31/18	Take-out		Plus: 3 yrs	Equals:
	1. Carolinas*	**2/19/16**	**Out**	**Capitalization**	**Deposits**	**Assets**	**TCE / TA**	**TBV**	**P/TBV**	**ROA**	**ROTCE**	**TBV**	**Multiple**	**Target**	**Dividend**	**Total Return**
1	**South State Bank (SSB) - Columbia, SC**	62.05	24	1,508	7,100	8,557	7.9%	27.88	**2.23x**	1.30%	16.4%	43.99	**2.23x**	81.05	13.8%	44.5%
	Successful roll-up in SC. Market recognizes the job well done with a huge 2.64x TBV.															
2	**BNC Bancorp (BNCN) d.b.a. Bank of North Carolina - High Point, NC**	20.39	40	805	4,742	5,657	7.5%	10.77	**1.89x**	1.10%	14.6%	16.22	**2.26x**	30.39	1.5%	50.5%
	Active in-state acquirer. Most recentlly, 8/15 acq $506M Southcoast Community Bank (SOCB) with 10 branches in South Carolina for $95.5M, equal to 2.02x TBV; 11/15 acq High Point NC-based $796M High Point Bank (HPTB) for $141M, equal to 1.45x TBV.															
3	**Yadkin Financial (YDKN) d.b.a. Yadkin Valley Bank & Trust**	21.65	32	688	3,310	4,474	8.9%	12.51	**1.73x**	1.10%	12.4%	17.75	**2.04x**	29.94	4.3%	42.5%
	Active in-state acquirer. Most recently, 10/15 acq NewBridge Bank (NBBC) for $456M, equal to 1.97x TBV; 1/14 acq VantageSouth Bancshares (VSB) for 1.6 TBV.															
4	**First Bank (FBNC) - Southern Pines, NC**	18.74	21	384	2,811	3,362	8.2%	13.42	**1.40x**	**0.85%**	10.4%	18.05	**1.84x**	27.48	4.7%	51.3%
	Top 3 in small but stable MSAs of Pinehurst, Lunberton, and Sanford, NC. Prime take-out target.															
5	**HomeTrust Bancshares (HTBI) - Asheville, NC**	17.53	18	312	1,830	2,729	12.5%	19.09	**0.92x**	0.40%	3.2%	20.99	**1.12x**	19.48	0.0%	11.1%
	#3 in Asheville, NC															
6	**Park Sterling Corp (PSTB) - Charlotte, NC**	**6.09**	**44**	**270**	**1,953**	**2,514**	**9.9%**	**5.60**	**1.09x**	**0.90%**	**9.1%**	**7.28**	**1.71x**	**10.31**	**0.8%**	**70.2%**
	#7 in Charlotte, NC; 10/15 announced acq of $617M First Capital Bank in Glen Allen (Richmond) VA for $82.5M, equal to 1.33x TBV. Prime take-out target.															
7	**Carolina Financial Corp (CARO) - d.b.a. CresCom Bank - Charleston,**	**16.00**	**10**	**162**	**1,032**	**1,409**	**9.7%**	**13.55**	**1.18x**	1.02%	10.5%	18.30	**1.57x**	23.74	3.6%	51.9%
	#8 in Chaleston and #7 in Myrtle Beach, SC. Prime take-out target.															

* Other Carolinas-based banks with limited to no trading liquidity include Southern First Bancshares (SFST) - #9 in metro Greenville, SC, Southern Bancshares (SBNC), Peoples Bancorp of North Carolina (PEBK), Live Oak Banking (LOB) - Wilmington NC.
First Community Corp (FCCO) - #8 in metro Columbus SC, Security Federal Corporation (SFDL), CNB Corporation (CNBW) d.b.a. The Conway National Bank, hq in Conway SC, Paragon Commercial Corp (PBNC) - #8 in metro Raleigh,

Bank Consolidation in the Southeast: Georgia

		Price as of	Shares	Market	Q4 2015					2015/2016		12/31/18	Take-out		Plus: 3 yrs	Equals:
	2. Georgia**	**2/19/16**	**Out**	**Capitalization**	**Deposits**	**Assets**	**TCE / TA**	**TBV**	**P/TBV**	**ROA**	**ROTCE**	**TBV**	**Multiple**	**Target**	**Dividend**	**Total Return**
1	**United Community Bank (UCBI) - Blairsville, GA**	16.63	72	1,199	7,881	9,672	9.0%	12.06	1.38x	1.00%	11.1%	16.55	**1.91x**	26.20	1.0%	58.6%
	4/15 announced acq of $1.2B Palmetto Bank (PLMT) in Greenville SC for $240.5M, equal to 1.77x TBV.															
2	**AmerisBank (ABCB) - Moultrie, GA**	26.27	33	856	4,879	5,589	7.4%	12.7	**2.07x**	1.25%	16.9%	20.27	**2.07x**	34.72	1.8%	34.0%
	10/15 announced acq of $502M Jacksonville Bancorp (JXSB) for $97M, equal to 2.37x TBV.															
3	**State Bank Financial Corp (STBZ) - GA**	18.94	37	702	2,862	3,470	14.1%	13.22	**1.43x**	1.25%	8.8%	17.05	**1.68x**	23.78	3.5%	29.1%
	Roll-up created via FDIC-assisted acqusitions. CEO Joe Evans is legend.															
4	**Fidelity Southern (LION) d.b.a. Fidelity Bank - Atlanta, GA**	**14.88**	**24**	**359**	**3,180**	**3,849**	**7.9%**	**12.66**	**1.18x**	**1.00%**	**12.6%**	**18.08**	**1.87x**	**25.46**	**6.0%**	**77.1%**
	Member of 2015 Bank Portfolio.															
5	**Charter Financial Corp (CHFN) d.b.a. CharterBank - West Point, GA**	13.51	16	210	744	1,005	19.7%	12.73	**1.06x**	0.45%	2.3%	13.63	**1.03x**	11.63	3.9%	-10.1%
	Mutual-to-stock-conversion.															

** Other Georgia-based banks with limited to no trading liquidity include Southeastern Bank Financial Corporation (SBFC) d.b.a. Georgia Bank & Trust - Augusta GA, and Hamilton State Bank (HMBH) - Hoschton GA.

Bank Consolidation in the Southeast: Florida

		Price as of	Shares	Market	Q4 2015					2015/2016		12/31/18	Take-out		Plus: 3 yrs	Equals:
	3. Florida***	**2/19/16**	**Out**	**Capitalization**	**Deposits**	**Assets**	**TCE / TA**	**TBV**	**P/TBV**	**ROA**	**ROTCE**	**TBV**	**Multiple**	**Target**	**Dividend**	**Total Return**
1	**BankUnited (BKU) - Miami, FL**	31.84	104	3,296	16,939	23,883	8.9%	20.59	**1.55x**	0.90%	10.1%	27.47	**1.81x**	41.12	2.4%	31.6%
	CEO John Kanas is legend; 6/11 announced acq of Herald National Bank in NY for 1.4x TBV, expanding from Florida into New York, where North Fork operated prior to its 2008 sale to Capital One.															
2	**EverBank Financial (EVER) - Jacksonville, FL**	12.71	125	1,588	18,242	26,601	6.3%	13.39	**0.95x**	0.80%	12.7%	19.18	**1.00x**	15.88	0.6%	25.5%
	5/12 IPO at $10, focused on residential mortgages with a high portion of jumbo in Florida. Online bank with no locations; EVER offers higher yield with the savings from no physical plant.															
3	**Florida Community Bank (FCB) - Weston, FL**	30.41	44	1,331	5,431	7,331	11.7%	19.53	**1.56x**	0.90%	7.7%	24.41	**1.57x**	31.76	0.0%	4.5%
	7/14 IPO @ $22 of de novo bank formed in April 2009 called Bond Street Holdings. Completed 8 FDIC deals along with the recent acquisition of $957M asset Great Florida Bank. Fairly priced.															
4	**Capital Bank Financial Corp (CBF) - Coral Gables, FL**	29.95	27	809	5,566	7,261	7.3%	19.75	**1.52x**	0.80%	10.9%	26.93	**1.57x**	34.93	3.7%	20.3%
	f.k.a. North American Financial Holdings (NAFH); CEO Gene Taylor acquired 8 banks since 2010 incl. the 11/15 acquisition of $2.4B CommunityOne Bank in NC for $350M, equal to 1.31x TBV, giving the bank #9 deposit share in Charlotte and Winston-Salem NC.															
5	**CenterState Banks (CSFL) - Davenport, FL**	14.29	46	656	3,215	4,023	10.1%	8.82	**1.62x**	1.00%	9.9%	11.72	**1.79x**	17.40	0.8%	22.5%
	d.b.a. Valrico State Bank and Center State Bank; 10/15 announced acq of $495M Community Bank of South Florida (CBKS) for $67M, equal to 1.45x TBV. Fairly priced.															
6	**Seacoast Banking Corporation of Florida (SBCF) - Stuart, FL**	14.53	34	495	2,844	3,535	9.0%	9.31	**1.56x**	0.80%	8.9%	12.03	**1.69x**	16.83	0.0%	15.9%
	Consolidator, not seller. 11/15 acquired $426M Floridian Financial Group for $76.5M, equal to 1.44x TBV; 4/15 acquired West Palm-based Grand Bankshares for $16.2 million, equal to 1.08x TBV.															
7	**Stonegate Bank (SGBK) - Pompano Beach, FL**	**28.75**	**13**	**375**	**2,024**	**2,380**	**9.9%**	**18.11**	**1.59x**	**1.18%**	**11.9%**	**25.37**	**1.99x**	**41.78**	**6.4%**	**51.8%**
	Highly regarded take-out target with low efficiency ratio ~50% and high ROA.															
8	**Capital City Bank of Florida (CCBG) - Tallahassee, FL**	14.53	17	249	2,303	2,798	6.7%	11.00	**1.32x**	0.40%	5.9%	13.08	**1.39x**	15.09	2.9%	6.7%
	Poorly managed with sky-high 86% efficiency ratio.															

*** Other Florida-based banks with limited to no trading liquidity include Atlantic Coast Bank (ACFC) - Jacksonville, FL, FirstAtlantic Bank (FFHD) - Jacksonville, FL, Beach Community Bancshares (BCBF) - Fort Walton Beach, FL,
First Miami Bancorp (FMIA) - Miami, FL, USAmeriBancorp (USAB) - Clearwater, FL

We identify 3 publicly-traded banks that meet all of our requirements – 1 in the Carolinas, 1 in Georgia, and 1 in Florida. Combined, these banks earn an average ROA and ROTCE of 1.03% and 11.2% respectively, yet trade at an average of only 1.28x TBV. Individually, each of these banks is an active participant in the consolidation of the U.S. banking industry, either as a ripe consolidation opportunity or as an efficient consolidator.

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Bank Investing in 2016 - The Southeast Consolidation Portfolio

		Price as of 2/19/16	Shares Out	Market Capitalization	Q4 2015 Deposits	Q4 2015 Assets	Q4 2015 TCE / TA	Q4 2015 TBV	Q4 2015 P/TBV	2015/2016 ROA	2015/2016 ROTCE	12/31/18 TBV	Take-out Multiple	Target	Plus: 3 yrs Dividend	Equals: Total Return
1	Park Sterling Corp (PSTB) - Charlotte, NC	6.09	44	270	1,953	2,514	9.9%	5.60	**1.09x**	0.90%	9.1%	7.28	**1.71x**	10.31	0.8%	70.2%
2	Fidelity Southern (LION) d.b.a. Fidelity Bank - Atlanta, GA	14.88	24	359	3,180	3,849	7.9%	12.66	**1.18x**	1.00%	12.6%	18.08	**1.87x**	25.46	6.0%	77.1%
3	Stonegate Bank (SGBK) - Pompano Beach, FL	28.75	13	375	2,024	2,380	9.9%	18.11	**1.59x**	1.18%	11.9%	25.37	**1.99x**	41.78	6.4%	51.8%
	Average						**9.2%**		**1.28x**	**1.03%**	**11.2%**		**1.86x**			**66.3%**

Bank #1: Park Sterling Bank (PSTB) – headquartered in Charlotte, NC is #7 and #8 in terms of deposit share in Charlotte, NC and Richmond VA respectively. With $2.0 billion of low cost deposits across 54 branches and an above-average efficiency ratio ~70% allowing for meaningful cost-cutting (synergies) in an acquisition, Park Sterling is a prime acquisition target. PSTB is significantly undervalued compared to recent comparable M&A transactions such as Yadkin Bank's (YDKN) October 2015 acquisition of $2.8 billion asset NewBridge Bank (NBBC) – headquartered in Greensboro, NC – for 1.97x TBV and 19.5x P/E. Management expects ROA to approach its 1.00% target by 2018 and there is negligible credit risk. Net charge-offs (NCOs) equal 0.02% of total loans, while $8.3 million of nonperforming loans (0.47% of total loans) are covered by $9.1 million of reserves (ALLL), representing 110% coverage. Using historical M&A data going back to 1990 and the correlation between ROTCE and P/TBV, PSTB is worth 1.71x. Price target[4] = $10.31. Total expected return = 70.2%, including 3 years of dividends.

Bank #2: Fidelity Southern (LION) d.b.a. Fidelity Bank – headquartered in Atlanta, GA was a member of 3-Sigma Value's 2015 Bank Portfolio, generating a 38.5% return in 2015 before cratering 33% so far this year (from $22.31 on 12/31/15 to $14.88 as of 2/19/16). With $3.2 billion deposits, LION ranks #7 in deposit market share in the Atlanta MSA and 9th in the state of Georgia. The highest performing under-valued bank in the all-important Atlanta market, LION is a bite-sized $3.9 billion in assets, giving it enough scale to drive efficiency while rendering it an ideal acquisition target for any consolidator or regional bank. With a solid organic loan origination program (10% annual loan growth target) and a diverse set of sources of fee income (mortgages, SBA, autos, trust & wealth management), 1% ROA is sustainable. At a regression-based 1.87x tangible book value (TBV) based on the present value of estimated 12/31/18 TBV, Fidelity Bank (LION) is worth $25.46 per share, representing 77.1% total return including 3 years of dividends.

Bank #3: Stonegate Bank (SGBK) – headquartered in Pompano Beach, FL, a community situated between West Palm Beach and Miami, Florida, is an extremely well-run franchise in

[4] Target price = PV (WACC) of (TBV growth through 12/31/18) x (take-out multiple based on ROTCE).

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South Florida and a prime take-out target. SGBK's 21 branches average nearly $100 million of deposits per branch, representing a significant profit advantage when compared to the $30 to $60 million per branch at the other southeastern banks in the portfolio. With a low efficiency ratio ~50% and a high ROA approaching 1.2%, SGBK is a valuable franchise worth at least 2x TBV. Net charge-offs are miniscule at 4 basis points of loans with well-above 100% provision coverage, meaning there is negligible credit risk. On top of the bank's core profitability, Stonegate has taken a lead role in the integration of Cuba into business in the United States. It is working with the Cuban Central Bank and government to initiate debit card transactions and enable trade finance transactions, and is one of the first U.S. institutions to actually facilitate transactions with Cuba. Price target = $41.78. Total expected return = 51.8%, including 3 years of dividends.

The January Massacre

Until recently, healthy large banks (greater than $15 billion of assets) traded at significant premiums to healthy smaller banks, leading us to focus our research effort on small-to-mid sized (less than $15 billion of assets) banks. Since we are market cap agnostic and value-based in our approach to investing, we are always drawn to cheaper assets rather than more expensive ones, and hence have focused in recent years on community and regional banks with an emphasis on geography. In January 2016, when the market corrected, the worst performing sectors were energy (in connection with the price of oil) and financials/banks. Down 20-30% across the board, even high quality banks with 1% ROA and negligible energy exposure saw their price-to-tangible book values (P/TBV) compress to levels that materially underestimate the durable profitability of these banking franchises.

Following is a list of the biggest banks in the U.S., some of which are trading well below their intrinsic value as defined by the correlation between return on equity (ROE) and tangible book value (TBV).

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Bank Universe: Large U.S. Banks

		Price as of	Shares	Market	Q4 2015		Mkt Cap /	TCE		2015	2016E		12/31/18	Take-out		Plus: 3 yrs	Equals:
		2/19/15	Out	Capitalization	Assets	TBV	Assets	Ratio	P/TBV	ROA	ROA	ROTCE	TBV	Multiple	Target	Dividend	Total Return
	Too Big To Fail													*No expansion*			
1	JP Morgan (JPM) - NY	57.82	3,681	212,843	2,351,698	48.13	9.1%	7.5%	1.20x	0.99%	1.00%	13.3%	69.95	1.20x	69.57	10.2%	30.6%
2	Bank of America (BAC) - NC	12.13	10,380	125,909	2,147,391	15.62	5.9%	7.6%	0.78x	0.74%	0.80%	10.6%	21.13	0.78x	13.58	10.9%	22.9%
3	Wells Fargo (WFC) - CA	48.09	5,108	245,635	1,787,632	28.55	13.7%	8.2%	1.68x	1.34%	1.25%	15.3%	43.79	1.68x	61.06	10.6%	37.6%
4	Citigroup (C) - NY	38.99	2,979	116,151	1,731,210	60.61	6.7%	10.4%	0.64x	0.95%	1.00%	9.6%	79.77	0.64x	42.48	1.5%	10.5%
5	Goldman Sachs (GS) - NY	146.91	427	62,663	861,000	161.64	7.3%	8.0%	0.91x	0.70%	0.95%	11.9%	226.26	0.91x	170.24	7.1%	23.0%
6	Morgan Stanley (MS) - NY	24.00	1,936	46,469	788,000	30.26	5.9%	7.4%	0.79x	0.77%	0.80%	10.8%	41.12	0.79x	27.00	10.9%	23.4%
						Average	**8.1%**	**8.2%**	**1.00x**	**0.92%**	**0.97%**	**11.9%**					
	The Big 3 Trust Banks (SEE SEPARATE ANALYSIS)													*No expansion*			
7	The Bank of New York Mellon (BK)	34.93	1,093	38,177	393,780	15.27	9.7%	4.2%	2.29x	0.87%	0.90%	21.2%	27.21	2.29x	51.53	8.1%	55.6%
8	State Street (STT)	56.19	403	22,672	245,199	29.16	9.2%	4.8%	1.93x	0.86%	0.90%	18.8%	48.84	1.93x	77.91	8.1%	46.8%
9	Northern Trust (NTRS)	59.38	231	13,730	116,748	35.38	11.8%	7.0%	1.68x	0.88%	0.90%	12.8%	50.83	1.68x	70.64	8.3%	27.3%
						Average	**10.2%**	**5.3%**	**1.96x**	**0.87%**	**0.90%**	**17.6%**					
	$50B+ of Assets													*Correlated to ROE*			
10	US Bancorp (USB) - MN	39.46	1,749	69,023	421,853	16.64	16.4%	6.9%	2.37x	1.45%	1.45%	21.0%	29.49	2.37x	57.89	8.4%	55.1%
11	PNC Financial Services Group (PNC) - OH	82.82	508	42,057	358,690	63.65	11.7%	9.0%	1.30x	1.17%	1.05%	11.7%	88.59	1.67x	122.13	8.7%	56.2%
12	Capital One Financial (COF) - VA	65.73	532	34,972	334,179	53.65	10.5%	8.5%	1.23x	1.29%	1.23%	14.4%	80.32	1.57x	104.20	9.0%	67.6%
13	BB&T (BBT) - NC	32.38	780	25,261	209,947	19.82	12.0%	7.4%	1.63x	1.08%	1.18%	16.0%	30.95	2.10x	53.87	11.2%	77.6%
14	SunTrust Bank (STI) - GA - Energy Risk	34.15	510	17,403	190,989	31.65	9.1%	8.4%	1.08x	1.03%	0.95%	11.2%	43.58	1.62x	58.62	10.9%	82.5%
15	Fifth Third Bancorp (FITB) - OH	15.28	794	12,137	141,082	15.39	8.6%	8.7%	0.99x	1.22%	0.90%	10.4%	20.70	1.54x	26.37	11.8%	84.3%
16	Citizens Financial Group (CFG) - Providence, RI	19.24	528	10,152	138,200	24.63	7.3%	9.4%	0.78x	0.62%	0.68%	7.2%	30.37	1.22x	30.75	8.7%	68.6%
17	Regions Financial (RF) - AL - Energy Risk	7.65	1,308	10,006	126,234	8.52	7.9%	8.8%	0.90x	0.88%	0.90%	10.2%	11.40	1.52x	14.34	10.6%	98.0%
18	M&T Bank (MTB) - NY	107.05	178	19,032	122,787	64.28	15.5%	9.3%	1.67x	1.06%	1.20%	12.9%	92.49	1.79x	137.00	11.6%	39.6%
19	**KeyCorp (KEY) - Cleveland, OH**	**10.70**	**836**	**8,943**	**95,271**	**11.22**	**9.4%**	**9.8%**	**0.95x**	**0.99%**	**1.00%**	**10.2%**	**15.00**	**1.52x**	**18.82**	**13.2%**	**89.1%**
20	Comerica (CMA) - TX - Energy risk	34.32	177	6,065	71,983	39.41	8.4%	9.7%	0.87x	0.76%	0.76%	7.9%	49.45	1.29x	52.62	9.0%	62.3%
21	**Huntington Bank (HBAN) - Columbus, OH**	**8.67**	**797**	**6,907**	**71,045**	**6.89**	**9.7%**	**7.7%**	**1.26x**	**1.01%**	**1.04%**	**13.5%**	**10.06**	**1.85x**	**15.38**	**11.4%**	**88.8%**
22	Zions Bank (ZION) - CA - Energy risk	21.41	204	4,374	59,670	27.63	7.3%	9.5%	0.77x	0.53%	0.69%	7.3%	34.13	1.23x	34.73	4.2%	66.4%
23	First Republic Bank (FRC) - CA	59.86	148	8,847	59,000	30.16	15.0%	7.6%	1.98x	0.86%	0.88%	11.6%	41.97	1.66x	57.85	3.0%	-0.4%
24	NY Community Bank (NYCB) - NY	15.46	485	7,497	50,318	7.21	14.9%	6.9%	2.14x	-0.10%	1.10%	15.8%	11.20	2.08x	19.32	13.2%	38.2%
						Average	**10.9%**	**8.5%**	**1.33x**	**0.92%**	**1.00%**	**12.1%**		**1.67x**			
	$15B to $50B of Assets													*Correlated to ROE*			
25	SVB Financial Group (SIVB) - CA, d.b.a Silcon Valley Bank	86.53	51	4,455	44,699	61.97	10.0%	7.1%	1.40x	0.84%	0.90%	12.6%	88.49	1.76x	128.99	0.0%	49.1%
26	First Niagara Financial Group (FNFG) - Buffalo, NY	9.38	355	3,328	39,926	6.81	8.3%	6.1%	1.38x	0.57%	0.58%	9.6%	8.96	1.46x	10.82	10.2%	25.6%
27	People's United Financial (PBCT) - Bridgeport, CT	14.67	310	4,551	38,874	8.73	11.7%	7.0%	1.68x	0.71%	0.72%	10.3%	11.73	1.53x	14.89	13.7%	15.2%
28	Popular (BPOP) - Puerto Rico - $669M of PR public sector exposure	25.86	104	2,680	35,769	42.18	7.5%	12.2%	0.61x	2.50%	1.01%	8.2%	53.49	1.00x	44.28	7.0%	78.2%
29	East West Bancorp (EWBC) - Pasadena, CA - Chinese customer base	29.17	144	4,198	32,351	18.15	13.0%	8.1%	1.61x	1.27%	1.21%	15.0%	27.60	2.00x	45.66	9.1%	65.6%
30	BOK Financial (BOKF) - Tulsa, OK - Energy risk	50.61	68	3,426	31,496	42.51	10.9%	9.1%	1.19x	0.95%	0.85%	9.3%	55.51	1.43x	65.73	10.5%	40.4%
31	First Citizens BancShares (FCNCA) - Raleigh, NC	234.13	11	2,578	31,476	239.90	8.2%	8.4%	0.98x	0.67%	0.67%	8.0%	301.92	1.30x	324.05	1.5%	39.9%
32	Synovus Financial (SNV) - Columbus, GA	26.75	131	3,494	28,793	21.99	12.1%	10.0%	1.22x	0.81%	0.88%	8.8%	28.34	1.38x	32.43	6.0%	27.2%
33	Cullen/Frost Bankers (CFR) - San Antonio, TX - Energy risk	51.16	62	3,188	28,603	31.76	11.1%	6.9%	1.61x	1.00%	0.95%	13.7%	46.72	1.87x	72.43	12.4%	54.0%
34	First Horizon National (FHN) - Memphis, TN	12.20	234	2,858	26,196	8.51	10.9%	7.6%	1.43x	0.37%	0.90%	11.8%	11.90	1.68x	16.58	7.9%	43.8%
35	FirstMerit (FMER) - Akron, OH	19.41	166	3,217	25,537	12.29	12.6%	8.0%	1.58x	0.91%	0.91%	11.4%	16.99	1.64x	23.08	10.5%	29.4%
36	Webster Financial (WBS) - Waterbury, CT	33.46	92	3,068	24,696	18.71	12.4%	6.9%	1.79x	0.87%	0.89%	12.8%	26.86	1.78x	39.61	8.6%	27.0%
37	Commerce Bancshares (CBSH) - Kansas City, MO	42.33	97	4,125	24,625	21.55	16.8%	8.5%	1.96x	1.12%	1.11%	13.0%	31.10	1.80x	46.39	6.7%	16.3%
38	Umpqua Holdings (UMPQ) - Portland, OR	14.91	220	3,283	23,387	9.16	14.0%	8.6%	1.63x	0.97%	1.10%	12.8%	13.13	1.78x	19.30	12.9%	42.3%
39	Wintrust Financial (WTFC) - Rosemont/Chicago, IL	40.87	48	1,977	22,926	33.17	8.6%	7.0%	1.23x	0.75%	0.75%	10.7%	45.02	1.57x	58.56	3.8%	47.1%
40	Hancock Holding (HBHC) - MS, d.b.a. Whitney Bank - Energy risk	23.41	77	1,812	22,849	21.74	7.9%	7.4%	1.08x	0.62%	0.71%	9.6%	28.65	1.46x	34.73	13.3%	61.7%
41	Prosperity Bancshares (PB) - Houston, TX	42.14	71	2,980	22,039	22.06	13.5%	7.1%	1.91x	1.33%	1.22%	17.2%	35.55	2.22x	65.44	8.8%	64.1%
42	Valley National Bancorp (VLY) - Wayne, NJ	8.98	254	2,279	21,613	5.36	10.5%	6.3%	1.68x	0.70%	0.79%	12.6%	7.64	1.76x	11.10	14.7%	38.4%
43	PacWest Bancorp (PACW) - Beverly Hills, CA	31.51	121	3,826	21,289	17.86	18.0%	10.2%	1.76x	1.63%	1.60%	15.7%	27.67	2.07x	47.43	20.4%	70.9%
44	Investors Bancorp (ISBC) - Short Hills, NJ	11.43	359	4,102	20,899	10.08	19.6%	17.3%	1.13x	0.76%	0.80%	4.6%	11.54	1.13x	10.84	6.3%	1.1%
45	**TCF Financial (TCB) - Wayzata MN, d.b.a. TCF National Bank**	**11.05**	**170**	**1,874**	**20,703**	**10.59**	**9.1%**	**8.7%**	**1.04x**	**1.03%**	**1.08%**	**12.5%**	**15.06**	**1.57x**	**19.53**	**10.9%**	**87.6%**
46	IBERIABANK (IBKC) - Lafayette, LA - Energy risk	47.43	41	1,951	19,504	40.26	10.0%	8.5%	1.18x	0.89%	0.90%	10.6%	54.47	1.56x	70.35	8.6%	56.9%
47	UMB Financial (UMBF) - Kansas City, MO	49.82	49	2,461	19,094	32.77	12.9%	8.5%	1.52x	0.65%	0.77%	9.1%	42.53	1.41x	49.59	6.0%	5.6%
48	Texas Capital Bancshares (TCBI) - Dallas, TX - Energy risk	32.95	46	1,510	18,909	31.69	8.0%	7.7%	1.04x	0.80%	0.60%	7.8%	39.71	1.28x	42.11	0.0%	27.8%
49	First National of Nebraska (FINN) - Omaha, NE	6,595.00	0	2,002	18,346	6,231.00	10.9%	10.3%	1.06x	1.15%	1.15%	11.2%	8,557.69	1.06x	7,498.33	7.5%	21.2%
50	Fulton Financial (FULT) - Lancaster, PA	12.70	174	2,210	17,867	8.67	12.4%	8.4%	1.46x	0.86%	0.85%	10.1%	11.56	1.51x	14.42	8.5%	22.0%
51	F.N.B. Corp (FNB) - Pittsburgh, PA	12.21	175	2,141	17,558	6.33	12.2%	6.3%	1.93x	0.96%	1.01%	16.0%	9.87	2.10x	17.14	8.8%	49.3%
52	PrivateBancorp (PVTB) - Chicago, IL, d.b.a. The PrivateBank	34.13	79	2,700	17,259	20.25	15.6%	9.3%	1.69x	1.13%	1.11%	12.0%	28.42	1.70x	39.90	1.8%	18.7%
53	MB Financial Bank (MBFI) - Chicago, IL	30.73	73	2,246	15,585	16.32	14.4%	7.7%	1.88x	1.07%	1.08%	14.1%	24.25	1.91x	38.36	7.4%	32.3%
54	Bank of Hawaii (BOH) - Honolulu, HI	62.80	43	2,719	15,501	25.06	17.5%	7.0%	2.51x	1.06%	1.08%	15.4%	38.54	2.04x	65.19	8.6%	12.4%
55	Astoria Financial (AF) - Lake Success, NY	14.99	101	1,511	15,076	13.39	10.0%	9.0%	1.12x	0.57%	0.44%	4.9%	15.46	1.12x	14.33	3.2%	-1.2%
						Average	**12.0%**	**8.4%**	**1.46x**	**0.95%**	**0.92%**	**11.3%**		**1.61x**			

Too-Big-To-Fail Banks[5]

The six banks that fall into this category must be separated from all the rest because their analysis is substantially different. These banks have open-ended, unlimited liability stemming from abuses during and since the credit bubble that are unresolved. They are virtually controlled by the government. They waste tens of billions of dollars every year with no accountability because the government expects them to spend tens of billions on shiny new branches and Hollywood marketing. The government manages these banks like government agencies rather than free-market corporations. They hire armies of lawyers and politicians. Trading is dead.

[5] The six Too-Big-To-Fail banks are JP Morgan (JPM), Bank of America (BAC), Citigroup (C), Wells Fargo (WFC), Goldman Sachs (GS), and Morgan Stanley (MS).

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Which means risk-taking is dead. In sum, the Too-Big-To-Fail banks are uninvestable. Maybe there is a trade in these banks every now and again, but no one should conflate trading and investing. They are two completely different strategies requiring two completely different skill sets.

Energy Risk

As described in 3-Sigma Value's *2015 Review / 2016 Outlook*[6], the world is over-capacitated with fossil fuels – oil, natural gas, and coal – in part because of new technologies that have drastically increased supply and lowered the marginal cost of energy production and in part because of burgeoning renewable sources of energy – solar, wind, and biofuels – causing a global shift in demand.

The second wave of destruction in the energy patch is upon us as hedges roll off and bankruptcies accelerate. Few companies are hedged for 2016 and no one is attractively hedged (some have hedges in the high $40s).

While we at 3-Sigma Value don't predict the future price of oil or any commodity, we do build models that employ ranges of possibility representing upside to downside scenarios. Production has been resilient in the face of a significant decline in rig counts because recent advancements in drilling technology – horizontal drilling and hydraulic fracturing – have made drilling more efficient. For example, new drilling technology has extended the length of horizontal oil wells to reach nearly two miles. Nevertheless, production in the U.S. will eventually reflect the sharp decline in capital expenditures (independent E&Ps in the U.S. slashed capex by nearly 50% in 2015 and are expected to slash it by another 50% in 2016). Due to advanced decline rates in oil shale basins (70%+ in year 1) production will drop more precipitously in 2016, which will likely trigger a rebound in oil prices. Even though the decline in U.S. production could be offset by Iran, OPEC, and/or other foreign sources of oil, this is the catalyst that will drive oil prices to mean revert.

Last year, 3-Sigma Value published a series of reports called *Energy Investing After the Price of Oil Drops – The Year is 2015; Parts I, II, & III* in which we assumed in our base case operating scenarios that oil would mean revert in 2016 to a range of $50 to $70 per bbl mid-range. Since then, we have witnessed the costs of production drop precipitously along with the price of the

[6] Available at www.3sigmavalue.com.

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underlying commodities, and therefore the marginal cost of producing oil is lower now than it was twelve months ago. Based on our analysis of global supply and demand, we now assume a mid-range for oil of $40 to $60 per bbl. As much of the capital structure across the energy spectrum was set at a time when oil was trading in a $100+ per bbl world, many companies with leveraged balance sheets will not be able to service their debt in the mid-range.

Conclusion – avoid banks with significant under-reserved energy exposure.

After screening out energy risk, we are left with three (3) banks, all not-coincidentally located in the Midwest, that meet our requirements for inclusion in 3-Sigma Value's 2016 bank portfolio.

Bank Investing in 2016 - The Big Bank Portfolio

		Price as of	Shares	Market	Q4 2015		Mkt Cap /	TCE		2016E		12/31/18	Take-out		Plus: 3 yrs	Equals:
		2/19/16	Out	Capitalization	Assets	TBV	Assets	Ratio	P/TBV	ROA	ROTCE	TBV	Multiple	Target	Dividend	Total Return
1	KeyCorp (KEY) - Cleveland, OH	10.70	836	8,943	95,271	11.22	9.4%	9.8%	**0.95x**	1.00%	10.2%	15.00	**1.52x**	18.82	13.2%	89.1%
2	Huntington Bank (HBAN) - Columbus, OH	8.67	797	6,907	71,045	6.89	9.7%	7.7%	**1.26x**	1.04%	13.5%	10.06	**1.85x**	15.38	11.4%	88.8%
3	TCF Financial (TCB) - Wayzata MN, d.b.a. TCF National Banl	11.05	170	1,874	20,703	10.59	9.1%	8.7%	**1.04x**	1.08%	12.5%	15.06	**1.57x**	19.53	10.9%	87.6%
	Average						**9.4%**		**1.09x**	**1.04%**	**12.0%**		**1.64x**			**88.5%**

Bank #1: KeyCorp (KEY) – headquartered in Cleveland, OH, d.b.a. KeyBank will become the 13th largest U.S. bank by assets after it closes its acquisition of $39.9 billion **asset First Niagara Financial Group (FNFG)** based in Buffalo, NY. Combined, the bank will have ~1,400 branches, clustered in the Northeast (OH, PA, NY, NH, ME), Northwest (WA, OR, ID, UT, CO, AK), and Midwest (OH, MI, IN). KEY is paying $4.1 billion for FNFG, equal to 1.7x TBV, a full price for an underperforming bank that is expected to earn ~0.60% ROA / 6% ROTCE over the 2015-2017 period. KEY management sees clear strategic, cost-saving, and synergistic benefits but the market so far disagrees. Before the deal was announced, KEY traded above $13 per share; now it is around $11, trading below its tangible book value (TBV) of $11.22.

KEY's core profitability is solid. With $71 billion of deposits costing a low 15 basis points, and net interest margin (NIM) ~3.00%, there is opportunity to increase ROA (from 1.00% to 1.25%) by shedding underperforming branches and improving its relatively-high efficiency ratio (from 66.4% in 4Q 2015 to below 60%). In fact, KEY is targeting $400 million of cost savings, equal to ~40% of FNFG's total operating costs.

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KEY has a $60 billion loan portfolio that is mainly commercial, with $30 billion of commercial and industrial loans (C&I), $13 billion of commercial real estate (CRE), only $2 billion of residential mortgages, $10.5 billion of HELOCs, and $1.5 billion of consumer other. While net charge offs (NCO) – 0.25% of total loans in 4Q 2015 – are expected to inch up to the 0.40%-0.60% range, provisions – 0.30% in 4Q 2015 – are expected to increase in kind. At December 31, 2015, allowance for loan and lease losses (ALLL) equaled 206% of non-performing loans (NPL), representing substantial coverage. KEY does have a $1.2 billion oil and gas loan portfolio (2% of total) that focuses on middle market companies and represents risk. In addition, total commitments in the energy sector were ~$3 billion at year end. Thus far, NCOs in the energy portfolio have been lower than NCOs in the overall portfolio, a situation not likely to persist. Nevertheless, even if 50% of the energy book defaults, the incremental $600 million of write-downs represents only 6.4% of the $9.4 billion of tangible book value and less than 2 quarters of pretax income. In sum, energy risk is negligible.

With no significant balance sheet risk, a diversified loan portfolio, 1% ROA and 10%+ ROTCE, we don't understand why KEY trades below book value. Using historical M&A data going back to 1990 and the correlation between ROA and P/TBV, KEY is worth 1.52x. Price target[7] = $18.82. Total expected return = 89.1%, including 3 years of dividends.

Bank #2: Huntington Bank (HBAN) – headquartered in Columbus OH is akin to KEY in many ways, including the fact that the market has not responded well to its recent announcement (January 2016) of a major acquisition, the $25.5 billion asset **First Merit Bank (FMER)**, headquartered in Akron OH. The price is $3.4 billion, equal to 1.64x TBV and 14.3x 2016, a fair price for a strategic deal that not only creates the #1 bank in Ohio but boosts HBAN's share in Michigan from #6 to #3 and adds Illinois (Chicagoland) and Wisconsin. FMER earned 0.91% ROA in 2015 and is well-managed as evidenced by a low efficiency ratio of 61.9%. Yet, HBAN's stock price broke $8 per share on the announcement and has since rebounded to only $8.67 (down from $11.06 at year end). At this level, HBAN trades at a 1.26x TBV, a bargain price for a solid commercial bank that consistently earns 1% ROA.

HBAN's core profitability is better than KEY's because its 777 branch footprint is consolidated in one region, the Midwest. With $55.3 billion of deposits costing 23 basis points, and net interest margin (NIM) in excess of 3.00%, there is, like KEY, ample opportunity to increase ROA (from 1.00% to 1.25%) by shedding underperforming branches and improving its efficiency ratio (from 63.1% in 4Q 2015 to below 60%).

[7] Target price = PV (WACC) of (TBV growth through 12/31/18) x (take-out multiple based on ROTCE).

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HBAN's $50 billion loan portfolio is well-diversified, with roughly half in commercial loans and half in consumer loans. The commercial portion of the portfolio is split between commercial & industrial (C&I = $20.6 billion) and commercial real estate (CRE = $5.3 billion) and totals $25.9 billion. It is diversified by sector and geography within the bank's Midwest footprint and underwriting is famously conservative as evidenced by negligible credit losses (C&I / CRE NCOs = 0.04% / 0.18% in 4Q 2015; >80% of CRE is personally-guaranteed).

In terms of energy, exposure is 0.5% of total loans, all of which are secured and first-lien. In 4Q 2015, HBAN added $10 million to its provision for credit losses related to exploration and production (E&P) companies. While energy risk is negligible, there is significant exposure to auto loans, a segment of the credit markets that we identify as high risk. At 12/31/15, HBAN's auto loans of $9.5 billion comprise 19% of total loans. As described in 3-Sigma Value's December 2015 report called *The Subprime Auto Bubble*[8], record U.S. auto sales in 2015 were driven not by a strong economy but by record auto lending. The demand for auto debt to supply bankers with securities to package and resell as asset-backed securities (ABS) has led lenders to systematically loosen underwriting standards, which will result in higher loan delinquencies. 3-Sigma Value is short subprime auto lenders (FICO < 640) who are the principal perpetrators of debasing credit standards the way they were debased in the subprime mortgage bubble.

In stark contrast to the subprime lending we target on the short side, HBAN's auto loan portfolio is comprised of super-prime customers with an average FICO ~ 760, and low LTVs, averaging <90%. HBAN has consistently been in the market for over 60 years and is not chasing market share or lowering credit standards. Auto delinquencies (30+ days past due) increased from 0.83% in 4Q 2014 to 0.96% in 4Q 2015 and will likely continue to inch up, but this is a far cry from the 25% and rising net charge-offs (NCOs) experienced in the subprime sector.

The rest of HBAN's loan portfolio is high quality real-estate based consisting of home equity loans totaling $8.5 billion (avg. FICO > 750 with >50% 1st-liens) and residential mortgage loans of $6.0 billion (avg. FICO of 738; new/refi mix ~72/25%). Net charge-offs (NCOs) are a low 0.21%, and ALLL (allowance for loan and lease losses) coverage is 161% of NCOs. In summary, the underwriting at HBAN is conservative and the credit risk minimal.

[8] Available at www.3sigmavalue.com.

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Similar to KEY, HBAN has no significant balance sheet risk, earns 1% ROA and 10%+ ROTCE, yet is materially undervalued at 1.26x TBV. Using historical M&A data going back to 1990 and the correlation between ROA and P/TBV, HBAN is worth 1.85x. Price target[9] = $15.38. Total expected return = 88.8%, including 3 years of dividends.

Bank #3: TCF Financial (TCB) – Wayzata MN, d.b.a. TCF National Bank is a national bank holding company with 375 branches[10] in Illinois, Minnesota, Michigan, Colorado, Wisconsin, Arizona, South Dakota and Indiana, and lending operations in all 50 states. TCB earned an impressive 1.03% ROA in 2015 that is expected to inch up in 2016 due to above average asset sensitivity and tighter expense management (efficiency ratio of 69% is bloated due to a spread-out branch network).

TCB's net interest margin (NIM) is substantially higher (4.4% in 2015) than its peers' (including KEY and HBAN) who average around 3% because TCB has a higher yielding loan portfolio (4.89% yield on loans and leases) driven by a national lending platform. TCB lends nationally rather than only in its footprint because, according to management, the geographic expansion improves the quality and diversification of the portfolio.

In the name of diversification, TCB has expanded aggressively into certain loan segments that are coming under investor scrutiny; including auto finance – 15% of 4Q 2015 portfolio. Similar to HBAN, TCB's auto loan portfolio is prime with an average FICO of 725 (held for investment), and low LTVs, averaging 95%. Moreover, TCB sells its lower FICO score loans while retaining the servicing rights. At December 31, 2015, TCB held $2.8 billion of portfolio loans (all prime) and serviced an additional $2.2 billion of loans for others.

There are multiple risk factors involved in auto lending but the most important distinction is credit quality. While subprime auto loan portfolios with LTVs >125% (or even >150%) will experience increasing delinquencies, prime portfolios with lower LTVs < 100% will largely stay out of trouble. TCB's net charge-off (NCO) rate on auto loans was 0.68% (versus 0.66% in

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[9] Target price = PV (WACC) of (TBV growth through 12/31/18) x (take-out multiple based on ROTCE).

[10] TCB's 375 branches consist of 192 traditional branches, 177 supermarket branches and six campus branches. Of its 177 supermarket branches, TCF had 117 branches in Jewel-Osco® stores at December 31, 2015. TCF will be closing 33 branches located in Jewel-Osco stores in 2016 and in their place installing ATMs that feature advanced transaction capabilities.

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2014), and since the bank is not lowering credit standards, we see no reason why losses should snowball like they will in the subprime market.

The one area where TCB could be negatively impacted by the bursting of the subprime auto bubble is its access to the auto ABS market. "Nonprime" auto ABS issuance increased 26% in 2015 to over $29 billion with TCB accounting for $1.1 billion, or 4% of the market. In 4Q 2015, TCB securitized $256.3 million of auto loans, earning $3.5 million in gain on sales. In 3-Sigma value's base case operating scenarios we assume zero gain on auto loan sales.

In addition to auto lending, TCB leverages its national platform to sell equipment leases (23% of total loans and leases) and inventory loans (13%). TVB's equipment leasing business is a valuable franchise that is the 14th largest bank-affiliated leasing company in the U.S. TCB has $4.0 billion of equipment leases (originated $1.969 billion in 2015, up from $1.874 billion in 2014) – 28% specialty vehicle, 11% construction, 10% golf cart and turf, 9% medical, 8% manufacturing, 34% other – with 4.55% average yield and a minute 0.13% NCO rate versus 0.10% in 2014. In addition to the yield spread, the equipment leasing business generated impressive 4Q 2015 fee revenue of $32.6 million (28.2% of total fees).

The other unique high yielding business with strong credit performance within TCB is inventory finance. Out of $2.1 billion of inventory loans (13% of total loans and leases), 48% are extended to power sports dealers, 23% to lawn and garden, and 29% to other. The yield on inventory loans is 5.66% and the NCO rate in 2015 was a microscopic 0.07% (up from 0.04% in 2014). Combining auto, equipment, and inventory lending with the more traditional and localized consumer real estate (31% of total loans and leases) and commercial real estate portfolios (18% of total loans and leases), TCB has built a portfolio that is one of the best performing and diversified out there. Yet, TCB trades at a depressed 1.04x TBV.

When we asked management why their stock is so cheap they mentioned that the bank received a Notice and Opportunity to Respond (NORA) letter from the Consumer Financial Protection Bureau (CFPB) in November 2015 related to checking account procedures to opt in / opt out of overdraft protection (in 2011/2012 per Reg E compliance). And they also talked about the misperception of their auto loan business and the opportunities to cut costs in its branch network. With a solid ROA of 1.03% in 2015 rising to ~1.08% in 2016, TCB is worth 1.75x tangible book

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value (TBV) based on estimated 12/31/18 TBV, equal to $19.53 per share[11], representing 87.6% total return including 3 years of dividends.

Northeast/Mid-Atlantic Banks

As described earlier, **KeyBank (KEY)** is acquiring $39.9 billion asset **First Niagara Financial Group (FNFG)** based in Buffalo, NY, which leads our bank analysis into the Northeast. M&A activity in the Northeast/MidAtlantic region display little in terms of the consolidation trend evident in the South/Southeast. Recently, **BB&T (BBT)** announced a pair of acquisitions – the $9.6 billion asset **National Penn Bank (NPBC)** for $1.8 billion, equal to 2.2x TBV, and $18.2 billion asset **Susquehanna Bank (SUSQ)** for $2.5 billion, equal to 1.7x TBV. And in October 2015, **New York Community Bank (NYCB)** announced the acquisition of $15.1 billion asset **Astoria Financial (AF)** for $2 billion, equal to 1.7x TBV. Moving south down the I-95 finds only a few other smaller deals:

- **OceanFirst Bank's (OCFC)** January 2015 announcement of its acquisition of $1.6 billion asset **Cape Bank (CBNJ)** in the New Jersey shore region for $208 million, equal to 1.41x TBV;
- **United Bank's (UBSI)** November 2015 announcement of its acquisition of Washington DC-based $1.22 billion asset **Bank of Georgetown** for $269 million, equal to 2.18x TBV;
- **TowneBank's (TOWN)** December 2015 announcement of its acquisition of 1.2 billion asset **Monarch Bank (MNRK)** in Chesapeake, VA for $220 million, equal to 1.92x TBV;
- **Univest Corporation of Pennsylvania's (UVSP)** December 2015 announcement of its acquisition of $1.1 billion asset **Fox Chase Bank (FXCB)** for $244 million, equal to 1.34x TBV;
- **Hampton Roads Bankshares' (HMPR)** February 2016 announcement of its acquisition of $1.0 billion asset **Xenith Bank (XBKS)** for $107.2 million, equal to 1.20x TBV, creating the second-largest community bank by deposits in the Virginia Beach/Norfolk/Newport News MSA.

[11] Target price = PV (WACC) of (TBV growth through 12/31/18) x (take-out multiple based on ROTCE).

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With a paucity of deals in the Northeast/MidAtlantic region, we deemphasize consolidation and concentrate on (1) profitable banks (ROA > 0.90%) where the high level of profitability is (in part) due to efficient cost management (efficiency ratio < average), and (2) the high correlation between return on tangible common equity (ROTCE) and P/TBV. Most banks that are tightly-managed and generate high returns trade at high multiples of tangible book value. Not **Customers Bank (CUBI)**. Introduced in 3-Sigma Value's *Bank Investing in 2013*, updated in *Bank Investing in 2015*, Customers Bank (CUBI) stock price rose in 2015 from $19.46 (12/31/14) to $27.22 (12/31/15), representing a 40% gain. Since then, however, CUBI is down along with the rest of the banks, opening another window to buy one of the most profitable and unloved banks in the U.S.

CUBI Valuation Summary

	Upside	Base	Downside
2018E Tangible Book Value per share	$27.12	$26.33	$25.56
Multiple of 2018 TBV	1.88x	1.57x	1.24x
Target Price*	$42.29	$34.16	$26.14
% Upside (Downside)**	86.2%	50.4%	15.1%
2018E EPS	$3.17	$3.10	$3.03
Multiple of 2018 EPS	15.67x	13.63x	11.59x
Target Price*	$41.17	$34.98	$29.05
% Upside (Downside)**	81.3%	54.0%	27.9%
Average of TBV & EPS-based Valuations	$41.73	$34.57	$27.59
% Upside (Downside)**	83.7%	52.2%	21.5%

* Target price = PV (12/31/18 TBV x take-out multiple based on ROTCE).
** Price at 2/19/16 = $22.71

Management, led by CEO Jay Sidhu, is guiding 2016 EPS to a range of $2.40 - $2.50 (midpoint = $2.45). After that, consensus expects CUBI to earn ~$3.00 by 2018 (3-Sigma Value Base Case = $3.10). CUBI has minimal credit risk. Non-performing loans (NPLs) are a minor 0.15% of the total loan portfolio, and reserves cover NPLs by a robust 341.7%. CUBI earns 13% ROTCE yet trades at a mere 1.24x TBV, a level significantly below its peer group. CUBI should trade at a premium (or at least in line), not at a discount, given its superior ROE driven by superior cost management (50% efficiency ratio in 4Q 2014; target “in the 40s”).

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For more background on Customer's Bank (CUBI), please read *Bank Investing in 2013*, updated in *Bank Investing in 2015*[12]. The main conclusion to be drawn is that since 3-Sigma Value originally invested in CUBI in the summer of 2012 via an $80 million Regulation D Private Placement in a Public Company (PIPE), CEO Jay Sidhu has done a tremendous job accreting book value and building Customers Bank into a very profitable $8.4 billion asset bank. With only 21 sales offices servicing its target market from Boston to Philadelphia along the I-95, this is a lean mean operation.

Westcoast Banks

Valuations across the West are higher than in other regions driven by recent M&A transactions at elevated levels. However, when we look closely at the individual deals we find them highly strategic and unrepresentative of overall consolidation activity. In other words, they are outliers.

- **BBCN Bank (BBCN)** announced (December 2015) its acquisition of $4.7 billion asset **Wilshire State Bank (WIBC)** for $1.0 billion, equal to 2.24x TBV, further consolidating the Korean market from three major banking groups into the two – the other is **Hamni Bank (HAFC)**, whose bid for BBCN (November 2015) was rejected and withdrawn;
- **Western Alliance Bancorp (WAL)** announced (March 2015) its acquisition of $1.9 billion asset **Bridge Capital Holdings (BBNK) d.b.a. Bridge Bank** for $423.7 million, equal to 2.47x TBV. BBNK operates one branch in the Silicon Valley region, and seven loan production offices around the country;
- **Royal Bank of Canada (RY)** announced (January 2015) its acquisition of $33 billion asset **City National Bank (CYN)** for $5.4 billion, equal to 2.4x TBV. CYN is the largest independently owned bank based in Southern California, with sole ownership of seven asset management companies and holder of non-controlling interests in two other wealth management firms.

Screening the west coast universe for banks that meet our investment criteria leaves us empty-handed at this time. The few banks that can be considered cheap relative to their core profitability share one thing in common – energy risk.

[12] Available at www.3sigmavalue.com.

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Portfolio Construction

The 3 banks in the Southeast combined with the 3 big Midwestern banks and Customers Bank (CUBI) constitute a 7 bank investment portfolio for 2016. While we are market cap agnostic, we remain laser focused on liquidity, and actively limit the size of positions based on their average daily volume over the past three months.

The 2016 Bank Portfolio

	Price as of 2/19/16	Shares Out	Market Capitalization	Q4 2015 Assets	Q4 2015 TBV	Mkt Cap / Assets	TCE Ratio	P/TBV	2016E ROA	2016E ROTCE	12/31/18 TBV	Take-out Multiple	Target	Plus: 3 yrs Dividend	Equals: Total Return
1 KeyCorp (KEY) - Cleveland, OH	10.70	836	8,943	95,271	11.22	9.4%	9.8%	**0.95x**	1.00%	10.2%	15.00	**1.52x**	18.82	13.2%	89.1%
2 Huntington Bank (HBAN) - Columbus, OH	8.67	797	6,907	71,045	6.89	9.7%	7.7%	**1.26x**	1.04%	13.5%	10.06	**1.85x**	15.38	11.4%	88.8%
3 TCF Financial (TCB) - Wayzata MN, d.b.a. TCF National Bank	11.05	170	1,874	20,703	10.59	9.1%	8.7%	**1.04x**	1.08%	12.5%	15.06	**1.57x**	19.53	10.9%	87.6%
4 Customers Bank (CUBI) - Wyomissing, PA	22.71	27	611	8,401	18.39	7.3%	5.9%	**1.24x**	0.90%	13.8%	26.33	**1.57x**	34.16	0.0%	50.4%
5 Fidelity Southern (LION) d.b.a. Fidelity Bank - Atlanta, GA	14.88	24	359	3,180	12.66	11.3%	7.9%	**1.18x**	1.00%	12.6%	18.08	**1.87x**	25.46	6.0%	77.1%
6 Stonegate Bank (SGBK) - Pompano Beach, FL	28.75	13	375	2,024	18.11	18.5%	9.9%	**1.59x**	1.18%	11.9%	25.37	**1.99x**	41.78	6.4%	51.8%
7 Park Sterling Corp (PSTB) - Charlotte, NC	6.09	44	270	1,953	5.60	13.8%	9.9%	**1.09x**	0.90%	9.1%	7.28	**1.71x**	10.31	0.8%	70.2%
Average								**1.19x**	**1.01%**	**11.9%**		**1.72x**			**73.6%**

Please contact me with any comments or questions.

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